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FROM : AMEMBASSY, ROME

DATE: May 9, 1967

SUBJECT: CIVAIR: First Two Sessions of US-Italy Negotiations in Rome, May 2 and 3, 1967

REF :

Attached as Enclosures 1 and 2 to this airgram are the Embassy's informal record of the first two sessions of the resumed US-Italy Civil Aviation negotiations in Rome, May 2 and 3, 1967. Also included as Appendices A and B of Enclosure 1 are US Document No. 6 and Italian Document No. 5.

REINHARDT

Enclosures: as stated

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Drafted by: ECON:PCNarten/ad 5/4/67

Contents and Classification Approved by: USDEL:FELoy

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Enclosure 1
From: Rome A-1011

MEMORANDUM OF CONVERSATION

May 2, 1967

SUBJECT: US-Italian Aviation Negotiations, Rome, Italy
First Session

PARTICIPANTS: The Official Delegation designated by the Italian Government and the US Government respectively were as listed below:

ITALIAN DELEGATION

Ambassador Benedetto Capomazza, Chief of the Delegation
General Felice Santini, Director General of Civil Aviation
Counselor Maurizio Varalda, Ministry of Foreign Affairs
Dr. Angelo Caruso, Office of Civil Aviation
Col. Leonida Quercietto, Office of the Civil Aviation
Dr. Girolamo Contestabile, Office of Civil Aviation
Prof. Antonio Malintoppi, Legal Expert
Dr. Mario Fugazzola, Ministry of Foreign Affairs
Dr. Pietro Venturini, Secretary General of ALITALIA, Observer

UNITED STATES DELEGATION

Mr. Frank E. Loy, Deputy Assistant Secretary of State
Mr. Joseph Minetti, Member, Civil Aeronautics Board
Mr. Melville E. Blake, WE/AIS, Department of State
Mr. Elias Rodriguez, OA/AN, Department of State
Mr. Philip Patman, L, Department of State
Mr. Rosario Scibilia, BIA, Civil Aeronautics Board
Mr. Philip C. Warten, Embassy, Rome
Mr. James Landry, Air Transport Association, Observer

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The session opened in the Sala Morosini at the Ministry of Foreign Affairs at 10:40 A.M.

Ambassador Capomazza: Mr. Assistant Secretary, Gentlemen, I welcome you to Rome in the name of Italy and the Italian Delegation. I know we have a long journey ahead, and I hope it will be smoother than our journey in Washington. You will find us full of patience and goodwill, in order to arrive at a fair deal for both parties.

I think it would be proper, after our long recess, to let my friend and opposite number speak first. As you know, this meeting should have taken place on April 11, and has been delayed at your request. I must say that this has given us time

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as well. We are curious to hear what is to be said as a result of your deliberations. We welcome all you gentlemen, and we hope your stay in Rome will be pleasant. We also wish you good luck.

Mr. Loy: Mr. Ambassador, Gentlemen of the Italian Delegation, on behalf of all of us, may I say that I appreciate your words of welcome. I want to say that we are pleased to be here and we share your hope that our stay will be productive. We have had, as you point out, quite a breathing spell. During this recess, we have reviewed the record of our earlier talks, and the position we took at that time. I would be less than frank if I did not say that the record did not make very satisfactory reading. We did not appear to have found a mutual understanding of the problems facing us, and even at the end we did not seem to have found a very good base from which to move forward. This is a serious problem, which I hope to deal with in a moment.

During the interval, your Prime Minister, during the visit of our Vice President, suggested to him that these matters be given the kind of hard political look which is, I must say, inherent in any discussion of problems between our two countries. In view of that request it seemed to us that in order to take your Prime Minister's words as seriously as they deserve to be taken, that we should again review the matter from all aspects.

I might say here that we did not begin the talks in Washington or the earlier talks in Rome without a thorough review and full study of the setting in which these problems arise, and a full consideration of the overall relations between our two countries. It would have been irresponsible to consider such an important agreement without doing just that. Nevertheless, one should not ignore such a specific and pointed request as that of your Prime Minister, and we have not done so.

Now, we spent an awful lot of time in our session in Washington talking with you about how to handle and in what order to handle the subjects before us, and we got stuck on talking about the proposed route schedule. That was the last thing we talked about. When I said the record made disappointing reading, I had in mind our long discussions on routes.

Another thing that happened in the interval between the talks in Washington and now was that I got a very kind letter from you, which also required consideration since it underlined the difficulty we have in agreeing on a basis for our talks. I think it would not be inappropriate in view of the record and of your letter to make a few points which may seem repetitious. However, unless we can reach a common understanding on the basis for our talks, we are going to be in trouble.

We approach these discussions in a friendly spirit towards Italy, and we are much aware of the special relations between our countries which we value highly. We also approach them in the full realization that these talks are for us and for you related to a specific economic and commercial activity. Our first

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consideration is that we cannot approach these talks outside of the overall pattern in which we deal with aviation - that is one of the limitations we face and within which we are trying to work.

The second thing I ought to say at the outset is that we feel rather strongly that part of the pattern we must work within is to establish a basis for a route exchange that we can live with and that we can justify to ourselves - a route exchange that is based on some sort of rational, logical approach.

None of this is new - but one thing that troubles me is that I think we may not understand each other on what we are trying to say when we try to put our route exchanges together.

Let me quote from Ambassador Capomazza's letter of March 28:

"You must understand that your mathematical method of computing the commercial dollar value of the unbalance in the old agreement, is too open to controversies to be accepted as such by us. Besides, we consider that the principle of 'equal opportunities' is the only equitable method of approach. In any event, we cannot accept this kind of financial evaluation, which in the end could even turn out to be a premium for inefficiency, with no relation to prevailing principles of commercial competition." I think that is a thoughtful paragraph. (You will note, by the way, that I am beginning where we left off in Washington without introductory material because I believe the time has come to do that.) Let me deal with this paragraph. Our position is that an air agreement between two countries involves the opportunity to earn revenues from the transport of people and goods and that any particular exchange of routes must seek to make that exchange a fair and approximately equal opportunity to earn those revenues.

We do <u>not</u> think, and I agree with you, that what happened last year or five years ago should determine what is fair and equal. If we did, that could indeed provide a premium for inefficiency. What we are looking for is equality of opportunities in the future. However, since we have a history of operations over the past years, we feel that it is rational and scientific to use these data to help us arrive at a prediction of a future fair and equal exchange. We think it would be foolish to deny ourselves the benefit of experience.

To repeat, we are interested in an agreement in the sense of an exchange of franchises to earn revenues, and since the agreement is for the future, these are for earnings in the future. We use the past to judge how valuable franchises are. We are fully aware that this is not a precise science. We don't purport to aim at a balance down to the last half million dollars. This would prove to be false accuracy. But we are aiming at a balance - if you will a mathematical balance - and we are thus quite concerned when you say that this concept is too open to controversy to be acceptable. This means we still don't agree on a proper basis for route discussions. You have introduced in your letter the concept of "equal opportunity", and, if it does not mean what we think, we don't understand what it is that you do mean.

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One of the things our review of the record has shown us, is that at this late stage it is not clear that we have a mutually acceptable approach. We do not know any other way to treat route exchanges except on an economic and commercial basis, that is by trying to equalize the opportunity to earn revenues.

Let me turn to another point. In paragraph 2 of the same letter, you refer to the fact that the US-UK Agreement represents a model that you would like for us to follow in our agreement.

I guess that in one of the Washington meetings we discussed this matter and you asked me to say something more about it. Maybe now would be a good time to do so.

I am assuming that the part of the US-UK Agreement you refer to is the method of describing routes, and of specifying in each set of routes the points of departure for one's own carriers.

The US-UK Agreement, as I believe most of you know, was really the first agreement of this sort signed in 1946 after the failure of interested nations to agree to a multilateral exchange of air rights. We had, in preparation for the Chicago convention, made exhaustive route studies in an attempt to determine which routes would be the first routes that ought to be established and as a prediction of where world air traffic would flow. The US-UK Agreement reflects this series of route studies, and was an inexperienced and uneducated attempt to approach the complex situation we faced due to United Kingdon's many colonial holdings. The agreement contained very specific points of departure for various carriers in the US and for British carriers at home and from the colonies.

It was attempted to achieve some flexibility through Section 4 of the Agreement. However, Section 4 soon became the subject of bitter controversies over what it meant. There were several long and unhappy arguments over this section, as a result of which Section 4 became difficult to use, and did not prove to be a sound vehicle to overcome the rigidity inherent in such a route description.

As a result of maturation of our thinking, we decided - and most other countries decided - that this was <u>not</u> the way to regulate air transport. It was not in our interest or in the interest of air transportation in general to repeat this sort of agreement. We have not repeated it except for the transborder countries of Canada and Mexico, with whom our traffic differs essentially from traffic on transatlantic and other routes. Our other agreements do not have this pattern and we are not prepared to return to that pattern.

In 1966 we renegotiated the UK agreement because both sides were dissatisfied with various aspects of it, and we wanted to modernize it and make amendments to it. We did make amendments to meet our most immediate needs. However, the negotiations were difficult and lengthy even though we limited them to attaining these immediate needs and did not attempt to start from scratch. You did not read the situation correctly if you read that that renegotiation and amendments was more than an attempt to solve the most difficult problems without trying to rock the boat.

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It did not amount to a conscious decision that the original agreement was desirable and should be repeated or extended elsewhere.

Well, where does that bring us? When we left off in Washington we were talking about an attempted route exchange. We said then, and we say now, that we are prepared to commence here in any form you think most profitable, except that we could not continue indefinitely to have the other issues under the table or under the rug. We had put on the table a route proposal that you greeted with what I may fairly say, were signs of disdain and with words that amounted to a quick rejection of it. I don't think that we are going to get very far now if (a) we don't have from you an explanation of why you rejected it, and (b) we don't have an idea of what makes the last offer unfair or unacceptable to you. We think that the exchange had the kind of elements that make it, first of all, at least equivalent in values, and, secondly, gave rights beyond the US and around the world that you consider desirable, even aside from commercial considerations. We would like to know why you consider it unacceptable, since in our view, it was a sound proposal. We cannot sit here making proposals unless we know what kind of standards you think are acceptable and that you think we ought to meet.

Letme conclude. We come with every intention to discuss all the elements of a new agreement. We can start, if you wish, with routes on the basis I suggested- or turn to other matters - but if we start with routes we should start where we left off and discuss the adequacies or inadequacies of our last proposal. We would be prepared to participate quite fully in that discussion.

Ambassador Capomazza: I am trying to answer some of the questions put forward by my friend Mr. Loy. As he has spoken of my letter, and referred to some of the points made in that letter, forgive me if I may be a little repetitious. I don't think we should be too repetitious, but perhaps in this first session after a long recess, there are some things that bear repating.

We understand that we are discussing a commercial agreement, but to take the dollar value yardstick as a rigid yardstick for the reciprocal grant of routes, we think maybe misleading. I shall try to explain why.

Even without taking into consideration the doctrinal dispute we have had over stopovers, we have good reason to reject this solution. We know the numbers of fifth freedom passengers who get on or off at Rome, but we do not know the numbers of passengers your carriers pick up in the US, at intermediate points, or at points beyond Rome. These figures are beyond our control. By sticking to dollar values, one overlooks the potentiality of long haul lines versus third and fourth freedom operations. We consider that fifth freedom is a proper subject of the bilateral. When routes are intermediate and beyond they infringe on the operations of ther countries. If you don't know the points involved, how can you value future activity without predermination?

In the mathematical discussions in Washington you referred to cargo and concluded

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that the Italian carrier earns $2 million more than the US carriers. Now, you know that we have an agreement that gives us each five frequencies on all cargo services. How is that the Italian carrier earns $2 million more than the US carriers? Because the Italian carrier is more efficient? We know that in fact you have a different way of conducting your all cargo services, and that it suits you. However, we can't, as this simple example shows, accept dollar value as the key to the agreement or as the key to a route exchange.

This agreement is an agreement between governments and not between air carriers. Air carriers can't base things on dollar values, but governments must take account of broader considerations. Governments must stick to reciprocity and equal opportunity. If you overlook reciprocity you fall into the kind of unequal treaty and the subsequent trap of restrictions that provoke denunciation. That is why we want to correct the unbalance of the old agreement.

You have spoken a moment about the Bermuda agreement. Let me tell you that after studying the matter I have decided that the <u>real</u> Bermuda agreement is not your agreement with the UK but your agreement with Italy. And this is why our discussion today is so difficult. The Bermuda aspect of the present agreement is contained in only one word: "beyond". We know it is difficult to come down from the elastic, flexible "beyond" to something more specific.

As for your explanation about the US-UK agreement, I know you are embarrassed and I can understand your embarrassment. You have recently, in fact, reinforced the agreement's rigidity - you have deleted the only clause that softened that rigidity. This is a fact and we must face facts.

We have spoken about correcting the unbalance in the present agreement. When we do, we think of the long period during which you enjoyed unlimited rights for frequencies and beyonds covering all of the Mediterranean and the Asian subcontinent to Bombay. You can see on the map how your routes beyond Italy fan out towards Asia. Your routes include 13 points in the US, seven in Europe, two in Italy, and nine points beyond Italy. Against this the Italian carrier has two points in Italy, three intermediates, and three landing points in the US. This is the unbalance we want to correct. No mathematics can alter this unbalance. You say you cannot make an agreement that is not within your general policy, We are not trying to get an agreement that would be the best of all your agreements, but we cannot accept having the least favorable of all.

You say through dollar value calculations that when Alitalia serves three points in the US they are so valuable that they make up for everything you have. Alitalia can evidently transform three points into gold mines. But is Alitalia the only line that is able to accomplish this miracle? Germany needs five points; France needs 8 points; Japan needs 5 points; and Great Britain needs 11 points. Of course we admit that all of these have been commercially balanced!

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This is not an argument we can accept. You say we have been exaggerating the damage Alitalia has had. Maybe so, but if Alitalia's three points balance all you have, why do other countries need more? This must mean that Alitalia is the only efficient carrier.

We have placed on the wall some maps comparing the route grants of various countries with the US. In each case the upper maps represent US routes, and the lower maps represent the routes of the country concerned. You can easily see that every other country is much better treated. Let us leave Great Britain out for the moment and consider Germany, France and Japan. I have never heard that the Germans are inefficient. They are supposed to be the most efficient people in Europe. But can we compare what Germany can giveyou with what we have to offer?

Take France. It has 8 points in the US: Boston, New York, Baltimore, Washington, Chicago, Houston, San Francisco or Los Angeles, and Anchorage. Plus two more points for flights from its possessions: Miami and San Juan. It also has two beyonds.

Germany can go beyond to the Carribean and to South America from Boston, New York or Philadelphia.

Japan has five points: Honolulu, San Francisco, New York, Los Angeles, and Okinawa. It has three beyonds: one beyond New York to Europe, one beyond San Francisco to Mexico, and one beyond Los Angeles to South America.

I left Great Britain to the last because Great Britain is in a special position. It has 11 points: New York, San Francisco, Baltimore, Philadelphia, Boston, Washington, Detroit, Chicago, Los Angeles, Miami, and Honolulu. It has beyonds to many points. It is true that the British have possessions, but it also has US points from them at Palm Beach, For Lauderdale, St. Thomas and San Juan.

What about Sweden, Norway and Denmark? What have they to offer? They are a dead end - the end of the road. Yet they have five points in the US: New York, Chicago, Seattle, Los Angeles and Anchorage. What do they have to offer you? Where do you go? I see you have recently obtained the important right to serve Goteborg!

Take the Netherlands. We all know of the Dutch clippers that were famous in the past. The Dutch have unfortunately lost their colonial possessions as have many of us, but they have three points: New York, Houston and Miami.

In other words they are treated as we are - but they are the Low Countries with very little to offer you.

You can argue as you did in Washington that the dollar differential is two or three million, but you cannot state that Alitalia has so much out of its US services that it does not need more. And this brings us to the core of our argument.

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We don't see why most favored nation clauses should only be for fuel, lubricants and spare parts but not for the main parts of the agreement.

Please believe me, however, that although we are very far apart, we will agree because we must agree. I am sure that in the end you will see our point of view. We would have preferred to have avoided denunciation. In this connection I will indulge in a little philosophy. Is it wisdom to defend one's own rights to the extent that the rope of agreement breaks, or is it wisdom to give a little? Someone has the responsibility for not having given a little on implementing our rights beyond New York. Mind you I am not laying the blame on you; we also are to blame. But we must have a new approach, we must look a little higher. If you take a new approach with us, we will take a new approach with you.

I do not intend what I am saying to be blackmail, but I wish you to consider what would happen if those maps on the wall wound up on the papers. We will not end these negotiations in the wrong because, let me assure you, I will not put myself in the wrong.

Mr. Loy: A lot of the things that you have said are rather nice. First, we agree that we make it difficult to arrive at the precise mathematical equivalent we seek, when we oppose so vigorously predetermination of capacity or frequency. I think that is what you said. If we both want to use commercial balance as a yardstick, it is achievable in spite of the fact that we will not admit predetermination. Without the history of operations we have, it would be even harder to find a valid assumption for a commercial balance.

Second, your point on all cargo operations, and the $2 million discrepancy is well made - but we have at no time said that we consider the agreement out of balance on that account, or that the discrepancy must be closed. The reason for the $2 million difference is in part the way we chose to operate and you chose to operate. It is also the result of certain restrictions you have imposed that we consider uncalled for and unwarranted under the present agreement. But that is not my point; I only stress that that kind of discrepancy is not necessary to erase.

When you say airlines can talk dollar values but governments must talk in broader terms, I can't totally disagree, because governments have to consider matters that are not always translatable easily into dollars. But air transport operations are never unregulated: governments are involved. Air transport involves intergovernmental agreements, giving to carriers certain operations, and responsible governments must adopt an approach that will make their opportunities equal.

In that connection, maybe we are excessively hooked on the dollar value concept, But I want to say that if you are hooked on the number of points concept, we are in trouble, because that is one of the least rationable approaches this discussion can take. Airline operations involve opportunities to earn money, not to serve

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an X number of points. It is a fact that certain rights, say to go from Miami to Mexico, or from London to New York, may each involve one point outside of the US. But what is that worth? It does not make sense to equate the numbers of points that have entirely different values. I don't think we can get anywhere trying to equate numbers with totally different values. This may seem simplistic but I think it would be fatal.

You made a good and well-considered presentation on the relations between our agreement with your country and our agreements with others. But I would like to erase your doubt if you think we may have come here with the intention to treat one of our staunchest allies and friends as a second class citizen. We have every intention of making a fair agreement with Italy.

This has been our position from the first day of the talks. Without going into numbers of points we have said that within our capability and responsibility, we will make adjustments increasing the ability of the Italian carriers to earn revenues. We have said that the proposal on the table for Italian routes is not acceptable, and we haven't been able to mold it or reduce it to acceptable form. Let us not put up as a straw man the present Italian position, because, rightly or wrongly, we are beyond that point.

You brought up these countries and the points they have. You yourself have indicated why some of the differences are understandable. I have a few other comments: with respect to Anchorage, we have treated Anchorage as a separate case, and have in essence granted Anchorage to any country wishing to operate there. It is not in the same category. With respect to the other points, it is certainly true that the UK serves more points than anybody else, but they also have more to offer for us. Even today under their much reduced circumstances, they have substantial points that are of great possible interest to us, such as Bermuda, the Bahamas, the Leeward and Windward Islands, Hong Kong, Fiji - quite aside from the fact that London for many reasons is still a critical point for Europe.

As for Germany, it has three points on the East Coast, two that Alitalia enjoys plus Philadelphia; it has Chicago the same as Italy does, and one West Coast point which as you well know we are prepared to discuss with you. We have seven points in Germany and serve, I think, five. We serve and want to serve many points in Germany, while they serve many points in the US - two besides those you serve - and they have only one route beyond the US. We have a full Bermuda agreement with them and beyonds in many directions.

My feeling is as we have indicated that we are not insisting on the status quo. It has not helped our discussions to introduce the concept of deliberate discrimination on our part against Italy or the Italian carrier. I don't think you could sell that concept in the US, or even the idea that today we discriminate against the Italian carrier, which operates with great success against good competitors.

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I will just mention one thing about Japan. Quite aside from other considerations, Japan is an enormous air traffic market. The traffic carried by Japan and US carriers between the two countries is greater than the traffic carried by Alitalia and US carriers between the US and Italy.

I think we can end up these discussions with an agreement which will more than satisfy the Italian desire to participate in the US market. I don't think we can do that if we start counting points in an automatic way without discussing values, and I don't think we can do that unless we have a realistic proposition on the part of the Italian delegation for us to chew on. I think you would probably agree that even under the wildest comparative analysis with other nations, that route description you have put forth is out of line, so obviously something else has to be considered or discussed. So far we haven't been able to get very far even describing something less.

I might say just one other thing. I guess I am slightly embarrassed to talk about dollar values again because of the usual description of Americans as materialists.

Ambassador Capomazza: Let us remember Jesus' words, "he who is without sin, let him cast the first stone."

Mr. Loy: Let me say with all the sincerity I can that the dialogue of dollar value is the dialogue and approach we have taken with each and every one of the countries you have mentioned or that we have agreements with. Sometimes we don't do so well either in the agreement or in implementing the agreement. That is our tough luck, particularly when the problem is in implementing. But this is not a device we have cooked up at the last minute to improve our position here, or a special approach we hope will end up with giving us an advantage, or that is specially designed to make a deal that would be unconscionable. This is the way we have gone about this with all the other countries. I guess I have not heard of any other way to carry out these discussions that seems to us fair or even feasible. I stress that I am concerned about the notion that we are engaged in an attempt to make an arrangement on a totally different basis from our other one. We have had long discussions of what is true value, and how to make adjustments in the value concept, but it is the kind of approach we feel is rational. Point counting or beyond counting has never been used in the past.

When we are not counting points, we are making maps - both of us. We have here a map we put together that seeks to visually describe the routings contemplated by Italian document No. 2 - your route request. I will be happy to give it to you. It includes both current operations and the proposed ones. It shows what problems you have presented us with. It contains a host of routes to Tokyo, five routes to Mexico - some of which we don't operate - and is visually a fairly eloquent document. I would like to give it to you for the purpose of underlining what we have said: that the request on the table is excessive by any standards, whether compared to our opportunities or to the opportunities of other countries, and if we are going to come to some agreement on routes, that request has to be modified. (Route map in Appendix A given Italian delegation.)

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Ambassador Capomazza: Well, Mr. Assistant Secretary, and my dear friends, first of all I want to thank you for the clarification of points that you have just made. We are especially happy that you do not intend to discriminate against Italy or intend to give us less favorable treatment than other countries. I do think this is a good base on which we can proceed. Perhaps you have made us appear mo: ambitious than we really are. We have here another document that does not change the substance of what has been given each side before. This is the way we see the balance, leaving out dollar values. (Route chart in Appendix B was distributed to the American delegation) Perhaps a few words of explanation would be useful. You have many points in the US. You have a large country and can feed your carriers very easily. You have seven lines between the United States and Rome/Milan. We feel,(we are ready to discuss, we are not 100 percent intransigent nor do we feel that we are absolutely in the right) but we feel that all these lines that "die" in Italy are more or less equivalent to our three that "die" in the US. Then you have other lines that come and go beyond Rome. They fan out from Rome to the Near and Middle East. It is to balance this Near East-Middle East fanning out that we have asked for one route to Mexico-Panama - one route - not routes from all the towns. This route will equate with the routes you run to the Near and Middle East. You may also consider that for a long time we have wanted to go from Italy to Mexico for cultural and other reasons as well as to other areas we hope to join. So we fan out from your country to Mexico and Panama.

Then we have asked for a round-the-world route from your country, from the West Coast, Los Angeles or San Francisco to Tokyo. This round-the-world line would equate with your line around the world through Tokyo.

These documents could be seen together and discussed more specifically.

We have to try and advance some propositions to each other that may be acceptable. We cannot grant any more pure and simple beyonds. You have said you were satisfied with what you had before and would not denounce the agreement, but you have tabled a request covering the whole world.

When we asked you to follow the methdological approach of the UK example, it was because we felt we must find a way to put a margin - to know where we stand with your request. We thought the only way to exclude Africa and Australia would be to follow the UK example. We are asking you to exclude various points - we cannot give you Australia or Africa.

You may study our document. And taking into general terms your statement of not wanting to discriminate against us, we can come down and see what we can do about our differences.

Mr. Loy: One question. Is this to be considered Italian Document No. 5? And is this intended to be a substitute document for No. 2?

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Ambassador Caponazza:No, this is intended to portray more clearly what we meant in our Document No. 4, in which we suggested also what we were ready to give you, and which refers as far as Italian requests are concerned to Italian Document No. 2. (It was decided to number the Italian schedule Italian Document No. 5 and to number the US map US Document No. 6; see Appendix A and B.)

Mr. Loy: I would like to study this. First I would like to say a couple of things. With respect to the form of your document, I would like to incorporate here, by reference, my comments as to the UK route structure.

The right-hand side is the way you see present US operations plus Bangkok, Hong Kong and Tokyo. Quite distinct from the problem of form, that must mean you believe that the left-hand side (the Italian route schedule) and the new route operations contemplated therein are needed to balance and make fair this agreement that we have, by some measure - whatever measure that is. That is a problem we will want to consider.

I will just note that there are on this document on the US route, destinations like Manila, Hong Kong, etc. in the Far East that are presumably served after some other point beyond Rome. The equivalent does not appear on your schedule, so that there is some lack of equivalancy in the presentation. I am not sure of the full meaning of this but I just note that.

Lastly, I would certainly suggest to you that if the number of points in our first column troubles you or requires some balance, you should consider adding points to make that balance in the first column of your route.

Ambassador Caponazza: Would you please repeat that.

Mr. Loy: You seem concerned with the amount of black type in the various columns. You put a lot of cities in the first column of our routes; you can do the same in the first column of your routes.

Ambassador Caponazza: We are not interested at all in visual reciprocity but in actual reciprocity. We consider this OK from that point of view.

Mr. Loy: My not very subtle suggestion is that you decide where you want to leave from, and we will decide where we leave from.

Ambassador Caponazza: If you have many lines, we don't intend to restrict you but these are points you do operate from.

Mr. Loy: I don't want to leave quite so quickly another point I made: That we are willing to consider this. We are - but we don't want you to forget our views about a route schedule modeled on the UK - which is what this is.

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But I am going to ask you tomorrow, in view of operating experience and what that demonstrates in view of the present equilibrium or lack thereof, how this solves that disequilibrium. I suggest we study the new document and meet tomorrow.

It was decided to meet the following day at 10:30 and it was agreed that later on it might be desirable to meet also in the afternoons.

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SECOND SESSION MAY 3, 1967, 10:45 A.M.

NOTE: General Santini and Mr. Malintoppi were absent from the Italian Delegation.

Ambassador Capomazza: Good morning Gentlemen. I don't know whether to say as did a famous French general, "Messieurs les Anglais tirez les premiers". Do you want to shoot first this morning?

Mr. Loy: No, I would be happy to hear what you have to say.

Ambassador Capomazza: It is no problem for me to make a few observations. I will begin with the interesting map you gave us. You know very well that in giving us this map you have really just made a mathematical exercise of figuring out all the possible combinations that could be derived from our route schedule. You have given us ambitions we don't have. I may note that if we perform the same operation with your route schedule, the map would be so black with routes that you would not be able to see the map underneath. Alitalia tells me that it would come to at least 250 combinations, but I did not want to ask Alitalia to go to all the work of demonstrating this for an essentially futile exercise.

You have us reaching Tokyo on five different routes, which we had no intention of doing. You create a quadrilateral, geometric form, using Atlanta and Dallas and Houston, Panama and Mexico, that has little to do with our intentions. I think it is an amusing map, and I understand what you mean by it, but I am sure it is not to be taken so seriously. I want to give a few specifics on our requests in Italian Document 5.

We are asking for a route to Panama from Miami. We are asking for a route to Mexico from Dallas or Atlanta - perhaps from Atlanta. Atlanta and Dallas have no connections with Europe, so if we were to get these points it would not harm any US carrier but we would be most interested in getting access to that traffic. I am sure a decision on your part to grant us those points would be popular in those two towns. To make your work easier, we are cutting out the point of Houston.

We wish to reach Tokyo from your territory - not from Mexican territory. One of the reasons we refused your offer in Washington was that we wanted to go to Tokyo from the West Coast of the US. What we will do once in Tokyo is our business. We will have other rights between Tokyo and Europe.

There is another consideration which I may repeat: in the cases of Tokyo and Panama, you must consider that our services will not start soon nor be run at full capacity. You know what Alitalia's possibilities are. On the other hand, I am against accepting anything unilaterally, such as limits on frequencies or say so many times per week. Still, it is obvious that Alitalia won't fly these routes 20 times per week.

We expect now that you would clarify your position a little bit. We said in Washington that we were dissatisfied with the proposition you made us. Here I

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want to repeat something that I said in Washington, although it should be unnecessary to repeat it. You seem, though, somewhat scared to speak out your mind. We know that this is a package deal and that there are other problems to be solved. We know that even if we are asking for the moon, we cannot bring home the moon until the other things are settled. So if you want to speak up your mind please do. It will make it easier for all of us.

Of course, a package deal is a package deal, but for us this package deal must start with routes. I have explained why we wish to discuss routes first, and I have told you that we must die for routes, whether or not you must die for other problems. So far as we are concerned, without good routes there is no agreement, and that is why we wish to talk routes now.

This is all I want to say at this time.

(Brief interval)

Mr. Loy: Mr. Ambassador, Gentlemen.

There are a few points I would like to make; the map we gave you yesterday was not intended to be fanciful, but rather a visual representation of your Document No. 2 as we see it. Let me say also that in general it does not include any single line that did not represent a major market of people who would be going from one point to another. We don't consider the lines were arbitrarily put on that map; essentially, each line represents a major market to and from the US. There is an enormous market in Japan from the West Coast, and also from other parts in the US such as New York and Chicago and we were not trying to make marks on paper for nothing. I would not want the map to be considered a misrepresentation, because it is a representation visually of an actual presentation that you have put on the table.

You say there are 250 possible combinations of points on the US schedule. I will only say now that there is a difference between Rome-Tehran, for example, and Chicago-Tokyo. I hope that is clear, and that it is clear what our map was meant to represent.

Turning to your Document No. 5, Mr. Ambassador, we understand that as having various qualities, but that except for format, and particularly the concept of listing points in the home country for the carriers of that country in the first column, except for that, it is essentially the equivalent of Document No. 2. Quite frankly, I have the same difficulties on substance with Document No. 5 as I do on Document No. 2 and the same difficulties that arise on our map. We consider these as propositions for routes, and we are not in a position to determine how the routes would go, which is serious.

Let me speak of Document No. 5. With respect to format (which has been called the UK format), I am not able to put in any different words than those I used previously our problem with that format. I am not certain you have found totally convincing, or have totally accepted, the problems we have. Let me restate them: we haven't made any agreement [illegible]ing that format with anybody but the UK; we are not going

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to. We are not prepared to bargain away our right to depart from our own territory from whatever points we wish, nor do we expect you to bargain away your right to depart from your territory. We think the lack of flexibility involved in binding ourselves to certain points of departure from our territory is not acceptable.

With respect to your comments this morning, we clearly found them interesting in that they represent a change from the Italian route request contained in Documents Nos. 2 or 5. I must say, however, that we don't understand precisely what it is that you have proposed. I think the best way to clarify this would be to ask you to put on a piece of paper your comments as a proposed route schedule that we could look at. We are confused as to the kind of intermediates, including US points, that you have in mind. Therefore, we are reluctant to make a full response since we are not in agreement among ourselves as to what you are asking. So my question is, could you put your comments this morning in the form of a route schedule?

Ambassador Capomazza: I would like to say this. First of all I would like to point out that the intermediate points we have presented in our route request are limited in number by agreements we have with other countries. Further, not only do we not have as many intermediate points as you have, but whereas you can serve them with all the frequencies you please, we can serve them only with limited capacity.

Perhaps I can have a talk with my delegation, but I am against giving you another document. I feel that it is up to you to show us what your intentions are. Our route was clear with the points specified. I have clarified this schedule further, and have specified that we only want to go from Miami to Panama and Dallas and Atlanta to Mexico, and from Los Angeles to San Francisco to Tokyo. At this stage that ought to be enough. I would like to hear from you now.

You have admitted the old agreement was unbalanced. How do you want to balance it? You have suggested Miami-Mexico and beyond to Tokyo. We have rejected that, partly because it meant turning to Mexico for our Pacific route. The question of points in your country can perhaps be discussed later. We can say that for example in column 3 of Document 5 we could write again Turin and Napoli for you for more balance visually. But this document already portrays that you can have a large number of lines that we don't have. Take it as you want.

I don't think we should give you another document, or at least you should clarify what you have in mind. We can stay here for months if you wish, although it gets hot in August. Come to think of it, though, this building does stay rather cool in the summer.

Mr. Loy: Mr. Ambassador, the route schedule you have presented in your Document No. 2, is, as we said without great detail in Washington, a proposition we cannot accept or consider by any yardstick. It is so far out of the picture, as to be impossible to deal with. I would be prepared, if you think it would be useful, to speak to that point at great length.

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What you said this morning makes a considerable difference and I am not sure I am interested in dealing with proposition 1 when I have proposition 2 in front of me - unless you mean your comments to be an oral description of a proposed route schedule - or is it an oral description of what you would initially operate under Document No. 2?

Ambassador Capomazza: What I said a moment ago is a clarification of our route request. It is also a change, if you want to put it that way, since after having seen the confusion in your map we cut out Houston in order to reduce some of the confusion, and we have limited our route to Panama to that via Miami and to Mexico via Atlanta.

Mr. Loy: How do you get to Atlanta?

Ambassador Capomazza: We could go via our intermediates and straight to Atlanta. For Miami we could go from London to Miami in three years. The point is we would go to Panama via Miami instead of via Miami and Mexico. We could present modifications but not until we see more about what the US delegation intends to give us.

I have shown our willingness to avoid useless speculation and keep our feet on the ground. Yesterday I said we wanted to follow the UK example only to be able to exclude Africa and Australia from your route schedule. If you can give me another way to exclude Africa and Australia, that will be a way to get away from the UK example. But I am not going to do all the talking. You must do some talking. I was not born yesterday.

Mr. Loy: Mr. Ambassador, during our discussion in Washington I said, perhaps to the point of boredom, that the route proposal you had made for Italian routes was impossible and something on which we could not come to agreement. It was difficult to deal with, not only in size, and multiplicity, but also because we were not aware of nor understood your priorities. Your comments this morning were, I am sure, intended to be helpful and we read them in that manner. If I understand, you were suggesting that it was possible to indicate to us those routes which were of real interest - that had priority - and that you were prepared to take what we consider your giant package and reduce it to more manageable dimensions.

Now, as you know, at the moment I am not asking you to concur in this. We feel that in a route exchange we must consider various tests and that these include evaluation in monetary terms of the package. We are also, we think, reasonably concerned with the nature of the traffic contemplated to be carried by a foreign carrier between the US and third countries. This is true whether we are talking about intermediate or beyond points. Now, in the brief discussion we have had during the intermission, we have been considering what you said generally and also specifically by these standards. We are unable, obviously, to come up with a

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response for two reasons: 1) we are still not in total agreement what your comments signify, and 2) we require time to evaluate the significance of your comments and the proposals they contain.

As I said, my feeling is that your effort means to be helpful and we believe it deserves a responsible and considerate response. I don't think we can do that without having more clearly represented, in writing, what your comments mean. I am not asking for concessions or for changes that you don't want to make. However, it would help us in our evaluating process if we could see it in writing. If you could give it to us this way we could study it and tell you our response. I reiterate that it contains for the US Government a number of problems - I don't want to mislead you into thinking we find it an acceptable arrangement - but at the same time I don't want to give an off-the-cuff answer. Therefore, we would like to have it in written form, and I ask your view on that.

Ambassador Capomazza: Gentlemen, I think there is some truth in what the Assistant Secretary is saying: I had intended to be helpful with my remarks. You will always find me helpful within the limits of the interests entrusted to me, but please remember that I can be helpful now, or tomorrow, but when I have reached my limit you will find a rock. Engineer Venturini has just given me an example of the combinations that can be made of your route request. (Ambassador Capomazza displayed several pages listing route combinations.)

I know you have been for a long time asking for our priorities. I told you in Washington and I repeat now that we have no real priorities. I have made clarifications and simplified the problem by taking out one point and by specifying certain routes. If we must give you another piece of paper it will take time to prepare it, and since tomorrow is a festive day, we would waste a lot of time. Therefore, let me read to you now how we see the various routes. You will then have a better idea of what our plans are, and you will be able to see how exaggerated your map was. I will now read you the routes.

1. Rome-Milan-Lisbon-New York
2. Rome-Milan-London-New York
3. Rome-Milan-Paris-Atlanta-Dallas-Mexico
4. Rome-Milan-Lisbon-Miami-Panama
5. Rome-Milan-Montreal-Los Angeles-San Francisco-Tokyo
6. Rome-Milan-Boston-Chicago

I would like to say also that this exercise we have now been making is a restriction of our flexibility. In other words we are doing exactly what we have been asking you to do in Washington. I don't want you to forget that for weeks you have resisted the same request from us. I expect some results out of this ouverture when we meet again. Because, as Mr. Loy has said, we have so many problems besides routes, we should settle the routes soon. Otherwise, the other problems will never arise.

Mr. Loy: I am not in a position to say anything not unduly repetitious without

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studying the matter with some care. I could make some comments, but it would be more useful and responsible to consider these matters with some care and meet again Friday at 10:30. We have work that needs to be done on the basis of these comments and we believe we shall have a more meaningful response for you. Perhaps that is all I can say today.

Ambassador Capomazza: All right. We agree with the Assistant Secretary although we suggest 10 instead of 10:30 because we are having you for lunch on Friday at the Domus Aurea on the Colle Oppio directly in front of the Colosseum and plan to move from here by car.

Mr. Loy: 10 o'clock will be fine with us.

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Italian Document No. 5

ROUTES REQUESTED FOR THE ITALIAN CARRIERS

Rotte richieste per il vettori italiani

	Points in Italy Punti in Italia	Intermediate points Punti intermedi	Points in USA Punti in USA	Points beyond Punti oltre
1A	ROME MILAN NAPLES TURIN	PARIS LONDON LISBON	NEW YORK	-
2A	ROME MILAN NAPLES TURIN	LONDON MONTREAL	BOSTON CHICAGO	-
1B	ROME MILAN NAPLES TURIN	PARIS LONDON LISBON	NEW YORK MIAMI ATLANTA DALLAS OR HOUSTON	MEXICO PANAMA
1C	ROME MILAN NAPLES TURIN	LONDON MONTREAL	NEW YORK CHICAGO LOS ANGELES SAN FRANCISCO	TOKYO

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USA AIRLINES OPERATIONS FROM, TO AND THROUGH ITALY

OPERAZIONI VETTORI USA PER/DA E ATTRAVERSO L'ITALIA

	Points in USA Punti in USA	Intermediate points Punti intermedi	Points in Italy Punti in Italia	Points beyond Punti oltre
1A	NEW YORK	-	ROME	
2A	SAN FRANCISCO NEW YORK	-	ROME MILAN	
3A	LOS ANGELES SAN FRANCISCO BALTIMORE PHILADELPHIA BOSTON NEW YORK	PARIS	ROME	
4A	CHICAGO NEW YORK	PARIS GENEVA	ROME	
5A	NEW YORK	LISBON BARCELONA NICE	ROME	
6A	BOSTON	LISBON	ROME	
7A	OKLAHOMA TULSA DETROIT BOSTON SAN LOUIS SAN FRANCISCO LOS ANGELES	PARIS	MILAN ROME	
1B	CHICAGO NEW YORK	PARIS	ROME	ATHENS CAIRO
2B	PHILADELPHIA BOSTON NEW YORK	LISBON MADRID	ROME	ATHENS CAIRO
3B	NEW YORK	PARIS	ROME	ATHENS CAIRO TEL AVIV BOMBAY
4B	LOS ANGELES NEW YORK	-	ROME	ATHENS TEL AVIV BOMBAY
5B	NEW YORK BALTIMORE	PARIS	ROME	ISTANBUL ANKARA BEIRUT TEHERAN
1C	MILWAKEE CHICAGO NEW YORK	PARIS	ROME	CAIRO DHARAN BOMBAY BANGKOK MANILA HONG KONG TOKYO

NOTE : Bangkok is operated without traffic rights.

These operational points are derived from the US carriers time-tables valid in peak season 1966.

It might be possible that the present document includes some unwilling mistakes or omissions, which the Italian delegation is ready to correct, as soon as they are pointed out.

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